

# Training 6-5: Financial Internal Control Systems



Welcome to the Wisconsin Department of Public Instruction's training module on the Private School Choice Programs. We will refer to the Private School Choice Programs as "Choice" or "Choice program" throughout this training. The Choice program is governed by Wis. Stat. §§ 119.23 and 118.60, as well as Wis. Admin. Codes ch. PI 35 and 48. Provisions of this training module are subject to statutory and rule changes.

In this section of the Fiscal and Internal Control practices requirements we will go through financial internal control systems.

## Financial Internal Control System

- Generally accounts must be maintained solely for the school.
- If the school's bank accounts are combined with the operating organization's account, the accounting system must separately identify the school's transactions and account balances.
- The bank must be in Wisconsin.

Generally accounts must be maintained solely for the school. The only exception is if the school's bank accounts are combined with its operating organization's bank accounts. In this case, the accounting system must have separate accounts for the school versus the operating organization. If there are certain revenues or expenses that are partially the school's and partially the operating organization's, the organization may record the total amount in an account and allocate the revenues and expenses in that account. The school may decide how often it will complete this allocation but must, at a minimum, complete it annually so that the financial audit can be completed.

Additionally, the bank where any funds of the school are deposited must be located in Wisconsin. In order to meet this requirement, at least one branch of the bank must be in Wisconsin.

The school must deposit all receipts and pay all disbursements from accounts that meet these requirements.

## Eligible Education Expenses Policy

The governing body must develop a written eligible education expenses policy. The eligible education expenses policy must:

1. Be a written policy that is approved by the school's governing board;
2. Describe the school's educational purpose;
3. Describe the services related to educational programming that the school provides to pupils enrolled in grades kindergarten to 12 that are reasonable for the private school to achieve its educational purpose; and
4. If the school has expenses or offsetting revenues that are partially related to educational programming and partially related to non-educational programming, describe the allocation method(s) that will be used.

The governing body must develop a written eligible education expenses policy. The eligible education expenses policy must be a written policy that is approved by the school's governing board. It must describe the school's educational purpose and the services related to educational programming that the school provides to pupils enrolled in grades kindergarten to 12 that are reasonable for the private school to achieve its educational purpose. If the school has expenses or offsetting revenues that are partially related to educational programming and partially related to non-educational programming, the policy must describe the allocation method(s) that will be used.

Please see the Financial Audit and PSCP/SNSP Reserve Balance bulletin available at <https://dpi.wi.gov/sms/choice-programs/bulletinsffor> for additional information on the requirements for this policy as well as a description of offsetting revenue.

## Required General Controls

- Reconcile bank statements on a monthly basis.
- Ensure no checks or other withdrawals are denied due to insufficient funds.
- If the school has any NSF's, the auditor will determine if the school has satisfied the payments.

There are two required general controls the school must have in place. The first is that the school must reconcile its bank statements on a monthly basis. Additionally, the school must ensure that no checks are denied due to insufficient funds. This requirement is closely related to the requirement that the school reconcile its bank account on a monthly basis. The school must be aware of what funds are available in its accounts and what outstanding checks the school has so it does not have any checks or electronic funds withdrawals denied due to insufficient funds.

If the school has any NSF's, the auditor will determine if the school has satisfied the payments.

## Required Cash Receipts Controls

- Maintain documentation as to the nature and source of all cash receipts

The school needs to maintain documentation stating the nature and source of all cash receipts. The school could provide a receipt for all transactions that involve cash and maintain a transaction log to record the cash receipts. For example, if a school receives a \$50 check from a parent for a music fee payment, the school could provide a receipt to the parent and also record the date the cash is received, the name of the parent and student the receipt is for, a description of the transaction such as “Fall semester trumpet instrument rental fee”, the check number, the dollar amount received and the name of the person at the school who received the cash receipt.

## Recommended Cash Receipts Controls

- Segregation of duties
  1. Have the person who receives or pays cash be separate from the person reconciling cash (the bank statement).
  2. Have the deposit prepared by someone independent of cash collections.
  3. Have someone independent of the process compare a list of checks received to the deposits made. One person should maintain the list of checks and a different person should make the deposits.
- Use prenumbered receipts.
- Restrictively endorse checks received immediately.
- Have cash counted by two people.

Cash receipt controls that the department recommends include ensuring that the school has more than one person involved in the cash receipts process. For example, the person who is receiving cash should not be the same person that is reconciling the bank statement. If the school is a small organization, using different people for different parts of the process may be difficult. An example of a way to try to address this is to have a secretary record checks that come in and then give them to the individual who deposits the cash. A board member could ensure that the checks that are recorded on the secretary's sheet match the checks that were deposited. A board member could also do a high level review of the financial statements on a monthly basis or complete the bank reconciliation so that someone independent from the process is involved.

Some other controls the school should consider include using pre-numbered receipts, restrictively endorsing checks immediately, and having two people count cash.

## Required Cash Disbursement Controls

- If checks are used, they must be prenumbered checks.
- Require invoice/disbursement requests for payment of all cash disbursements.

There are several cash disbursement controls that are required by Wisconsin Administrative rule. The first one is that the school must use pre-numbered checks. Additionally, the school must have an invoice or disbursement request for all cash disbursements. The invoice may either be a copy or the original.

## Required Cash Disbursement Controls (cont)

- The school must establish an electronic fund transfers (EFT) policy and comply with the policy.
  - The policy must specify whether or not the school will pay disbursements electronically.
  - Indicate who is authorized to approve EFTs
  - Indicate the dollar level limit for each authorizer(s)
  - Identify the required authorization for internal fund transfers

The school must establish an electronic funds transfer, or EFT, policy. This policy must specify whether or not the school will pay disbursements electronically. If the school will pay funds electronically, the policy must indicate who is authorized to approve electronic funds transfers. For example, the policy may indicate that the bookkeeper can authorize electronic fund transfers up to \$500, that the principal and bookkeeper must authorize transfers up to \$1,000 and that transfers above \$1,000 must be authorized by the bookkeeper, principal and a member of the board.

If the school completes internal fund transfers, the policy should also identify the required authorization for internal fund transfers.

## Recommended Cash Disbursement Controls

- Require management approval for higher dollar payments
- The individual writing out the checks should be different than the person reconciling cash

The department recommends that the school establish a policy for approval of all payments, not only electronic fund transfers. This policy should require management approval for higher dollar payments.

Similar to cash receipts, the department recommends that the school try to ensure that different individuals are involved in the cash disbursement process. For example, the person writing checks should be different than the person reconciling cash. As we discussed earlier, the school can consider higher level controls at the board level if they do not have a sufficient amount of staff to have different individuals completing the day to day operations.

## Questions

Website: <http://dpi.wi.gov/sms/choice-programs>

Email: [DPIChoiceAuditReports@dpi.wi.gov](mailto:DPIChoiceAuditReports@dpi.wi.gov)

Phone: 1-888-245-2732 ext. 3



If you have any questions about the information discussed in this training, please see the Private School Choice Programs homepage. The left menu bar of the Private School Choice Programs homepage has resources for both schools and auditors.

Choice schools may also contact the Choice auditors at the email on the slide, or call the toll-free number at 1-888-245-2732, extension 3 with questions.